1977

AQUITAINE

COMPANY OF CANADA LTD.

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THE COMPANY

Aquitaine Company of Canada Ltd. (Aquitaine) is a public company engaged in exploration for oil and gas and hardrock minerals in Canada and the United States. It produces oil, gas liquids, gas and sulphur in Alberta and north west United States and coal in Pennsylvania.

The Company was incorporated in 1963. In 1964 it acquired a minority share interest in Banff Oil Ltd., a small Canadian exploration company with which it then entered into joint oil and gas exploration. The team made its first discovery at Rainbow Lake in northern Alberta in 1965. The discovery developed into a major oilfield, and was followed by major gas discoveries in the Strachan and Ricinus areas of west-central Alberta, in 1968 and 1969.

Incorporated as a wholly owned subsidiary of Société Nationale des Pétroles d'Aquitaine (SNPA) of France, the Company went public in 1968. It acquired all of the business and properties of Banff Oil in 1971. In early 1975 it purchased Westrans Industries, Inc. (now Aquitaine Pennsylvania, Inc,) a company primarily engaged in coal production in Pennsylvania.

The Company's parent SNPA changed its name to Société Nationale Elf Aquitaine (SNEA) in 1976 as part of a reorganization involving its own parent, Entreprise de Recherches et d'Activités Pétrolières (ERAP), a French agency whose trade name Elf is associated with world wide oil and gas operations. In the same year the Company acquired the Canadian subsidiary of ERAP, Elf Oil Exploration and Production Canada Ltd., which had been one of the earliest oil explorers in northern Canada.

Following the acquisitions and reorganizations mentioned above, the Company's shares are held approximately 3.2% by investors in the United States and other countries, 21.1% by investors in Canada, and 75.7% by SNEA in France. SNEA in turn is owned approximately 75% by ERAP, with the balance widley held. SNEA shares are listed on the Paris and Brussels stock exchanges. The Company's shares are held by approximately 6,700 registered shareholders and are listed on the Montreal, Toronto and American stock exchanges.

Aquitaine has wholly owned subsidiaries engaged in coal mining (Aquitaine Pennsylvania, Inc.), and in oil and gas exploration, and minor production, in the United States (Al-Aquitaine Exploration, Ltd.). Aquitaine also owns a one-third interest in Rainbow Pipe Line Company Ltd. which owns the oil pipeline connecting Rainbow Lake and Edmonton.

The Company owns the Aquitaine Tower, a modern 20 storey office building in Calgary where the Company's head office occupies five floors.

In 1977 the Company had gross income of $164 million, funds from operations of $63 million and net earnings after taxes of $36 million. In 1977 it produced and sold, after royalties, 6.2 million barrels of oil and gas liquids, and 38.3 billion cubic feet of natural gas. The Company sold 473 thousand long tons of sulphur, and 1.2 million short tons of coal. It has 396 employees in Alberta, 485 in Pennsylvania and 7 in Colorado.

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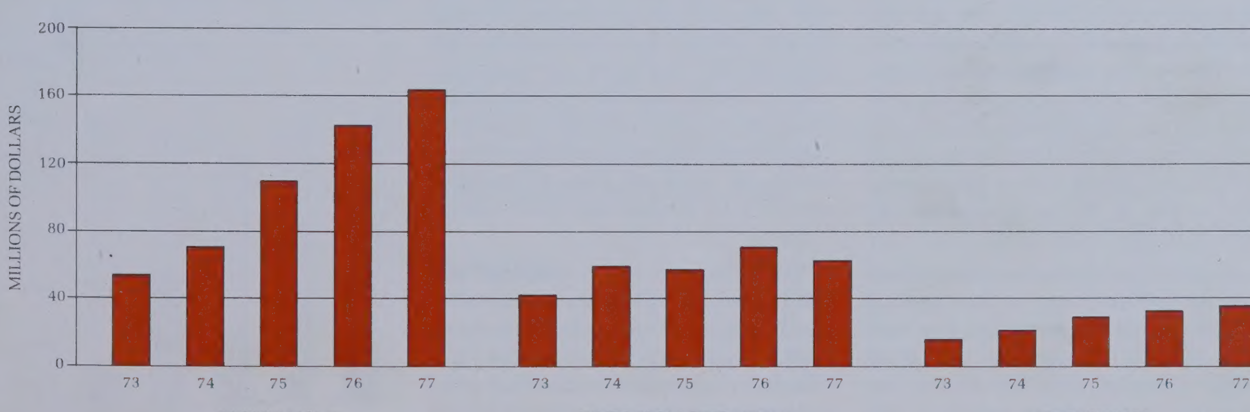
COMPARATIVE HIGHLIGHTS

Financial (in thousands except per share amounts)

	1977	1976	% Change
Sales and other income	$163,787	$143,692	+14
Net earnings	35,962	34,052	+ 6
Per share	$1.67	$1.62	+ 3
Income taxes and royalties to governments	119,556	96,115	+24
Per share	$5.55	$4.57	+21
Funds from operations	62,738	69,765	−10
Per share	$2.91	$3.32	−12
Capital expenditures			
Oil and gas	33,640	33,068	+ 2
Coal	27,344	17,233	+59
Mining	1,521	1,230	+24
Working capital	24,995	24,880	—

Operations

	1977	1976	% Change
Production (net after royalties)			
Oil and gas liquids			
Thousands of barrels per day	17.0	18.1	− 6
Gas			
Millions of cubic feet per day	104.8	124.7	−16
Sulphur			
Annual — thousands of long tons	1,025	983	+ 4
Coal			
Annual — thousands of short tons	1,248	1,376	− 9
Acreage holdings (thousands of acres)			
Gross	76,763	80,708	− 5
Net	33,639	36,259	− 7
Gross reserves			
Oil and gas liquids — millions of barrels	132	142	− 7
Gas — billions of cubic feet	672	712	− 6
Sulphur — millions of long tons	12	13	− 5
Coal — millions of short tons	56	57	− 1



PRESIDENT'S REPORT

The Company's financial position continued to improve in 1977. Net earnings were $35,962,000, up slightly on a per share basis from $1.62 to $1.67. Improved sulphur sales and higher prices for Canadian oil and gas contributed largely to the satisfactory state of the Company's finances. While the new oil and gas prices have been of benefit to the Company, it must be recognized that the combined effect of the formulas for calculating provincial royalty and federal taxes, as applied to Aquitaine whose income comes principally from high-production wells, is that most of each price increase goes to the two governments.

The Alberta government's drilling subsidy program, combined with higher product prices, has had a stimulating effect on the industry as a whole. Exploration has taken on a new vitality, resulting in a record number of exploratory wells in Alberta in 1977. Land prices have soared to new highs and geophysical crews and drilling rigs are in short supply. New gas has been discovered to the extent that there now exists a surplus of reserves in Alberta. Activity has also revived considerably, but to a lesser degree, in British Columbia and Saskatchewan.

During the year the demand for Canadian sulphur rose steadily, boosting our sales by more than 50% over 1976. Continued improvement in sulphur prices and sales are anticipated.

The normal decline, through production, in the Company's gas reserves has been partly, though not wholly, offset by new gas discoveries, mainly in Alberta. Our holdings in the United States offer good prospects for new oil reserves. We intend to follow an expanded exploration program in 1978 in the deeper part of the Alberta basin, and in British Columbia, as well as in the United States.

Notwithstanding escalating costs and inevitable delays in the event of discovery, we are unwilling to abandon exploration in the promising frontier basins. New federal tax incentives for frontier exploration encourage our drilling in such areas as the Beaufort Sea and the Eastern Offshore. Proposed federal land regulations will finally allow us to proceed with a well in the Yukon Territory that has been deferred for several years.

The challenge by the Newfoundland government to the federal government's jurisdiction and ownership of mineral resources off the East Coast has been pressed so strongly that the Labrador Group cancelled its 1977 offshore drilling program, and pending assurances of acceptable title and regulation, will probably be forced to do the same again in 1978.

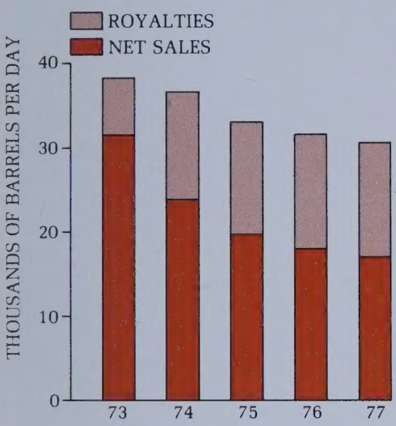
Coal operators in the United States had an unusually difficult year, and the Company's Pennsylvania mines were severely affected in terms of cost and output. Production operations were hampered first by extremely low temperatures, then by a miners' strike in December, which continued through March of 1978. We were able to maintain our income from coal sales at about the same level as in 1976, however, by upgrading the quality of our production. Prices for metallurgical coal, which make up a large part of our production, remained soft. Coal demand and prices are closely related to the general state of the United States economy and it is doubtful that they will move up substantially in the short term. We believe, however, that our large capital expenditures on mechanical mining and upgrading equipment will pay off satisfactorily in the longer term. By continuing to improve the quality of our coal we will sell larger quantities meeting the Environmental Protection Agency regulations and anti-pollution standards. By 1979 we hope to be in a position to double our 1977 sales volume.

The Company has re-affirmed its willingness to dedicate personnel and financial resources to the protection of the environment, and our efforts have resulted in meeting, and even exceeding, legislated requirements. It must be realized that these efforts add appreciably to the cost of operations. Another cost, not easy to measure but unquestionably significant, is that of the delay inherent in the bureaucratic process, which must review, approve, and administer the mushrooming number of programs considered to be in the public interest.

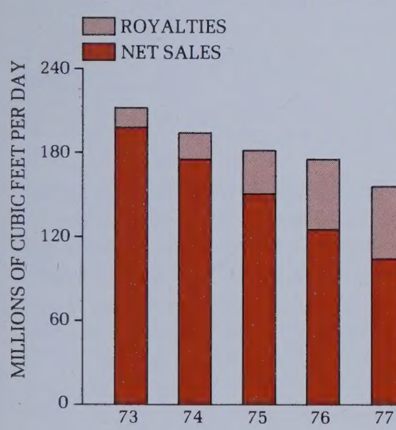
The Company now has 888 employees and I would like to express the appreciation of the Board of Directors for their efforts in the advancement of the Company's ambitions. The members of the Board would also like to recognize here the contribution of their colleague Mr. Harold Manley, who has retired. His insight and advice have been greatly respected during his 15-year association with Aquitaine and its predecessor Banff Oil Ltd. We are pleased that another experienced Western Canadian oil executive, Mr. Carl Jones, has accepted an appointment to fill Mr. Manley's place on the Board.

Jacques Payan
President

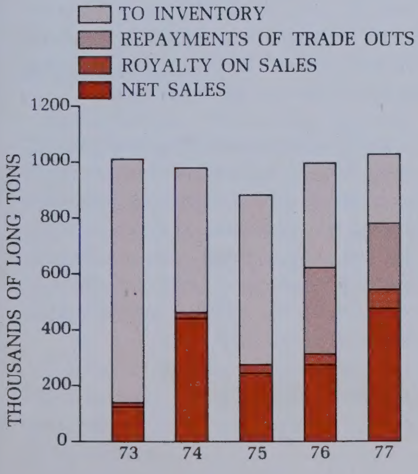
OIL AND GAS LIQUIDS SALES



NATURAL GAS SALES



SULPHUR PRODUCTION



Summary

Sales of oil, gas liquids, natural gas and sulphur increased $16,204,000, or 15% after royalties, to $125,350,000 in 1977, due primarily to price increases for oil and natural gas. Income from the sale of oil and gas liquids was $63.2 million, up 13%; from natural gas $48.8 million, also up 13%; and from sulphur $7.6 million, up 51% and coal sales increased 9% to $33 million. Net income from processing amounted to $5.7 million.

Oil and Gas Liquids

Total demand for Canadian crude oil and gas liquids in the domestic and United States markets increased by 2.8% in 1977 to an average of 1,463,100 barrels per day.

The Company's production of Canadian crude oil and gas liquids, before royalties, dropped 3% to 30,580 barrels per day in 1977, and sales, after deducting royalties, dropped 6% to 17,038 barrels per day. The decreases were due chiefly to constraints in the pipeline delivery system affecting Rainbow production, and partly to a 5% increase in average royalty rates.

Canadian crude oil prices are regulated by agreements between the federal and provincial governments. In 1977 increases of 70¢ and $1.00 per barrel became effective January 1 and July 1 respectively. In addition, upgrading in quality of the Company's crude oil brought an additional 3¢ per barrel, and a further 3¢ resulted in June from adjustments in the pricing formula. The average wellhead price for the Company's crude oil and gas liquids increased by 21% in 1977, to $10.16 per barrel, of which approximately $4.50 was paid to government as royalty.

Natural Gas

Total demand for natural gas increased in both the domestic and export markets in 1977. The market included special exports of natural gas to the United States during the extremely cold weather early in 1977.

The Company's natural gas sales before royalties were down 10% averaging 156.6 million cubic feet per day in 1977. Sales after royalties were down 16% to 104.8 million cubic feet per day. The decrease in gross production was due to the sale in 1976 of certain producing properties, mainly Beacon Hill, and also to the turnaround of the Ram River Plant in 1977 for scheduled maintenance.

Gas prices for Ram River production increased 48% from 99¢ per Mcf in January, 1977 to $1.46 in January, 1978.

Sulphur

Domestic and offshore markets for sulphur improved with total sales of Canadian sulphur increasing from 3.9 million to 4.8 million long tons, or 23%. This increase in demand results partly from declining production in the United States and Mexico and partly from growing world requirements.

The Company's net sales volumes increased by 74% to 473,000 tons. The average price to the Company in 1977 was $15.97 a ton. Prices had climbed to above $17 by year end.

Coal

The market for metallurgical coal remained relatively soft as the U.S. steel industry was operating below capacity. The steam coal market was firm in 1977 as utilities companies increased their inventories in anticipation of the miners' strike.

Coal sales expressed in U.S. dollars were virtually unchanged, but because of currency exchange differences, showed an increase of 9% to $33,026,000 when expressed in Canadian dollars. A 9% reduction in volume was offset by upgrading the quality which increased the price. The average price to the Company for the 1,248,000 short tons sold was $24.89 U.S. per ton compared with $22.25 in 1977.

PEMBINA - BRAZEAU - RAM RIVER

Alberta

Aquitaine's exploration efforts were again directed to Alberta's foothills and deep basin prospects, areas which show increasing promise for oil and gas discoveries. An active drilling and seismic program is being carried out in these areas. In addition, the Company's holdings were increased by 150,000 acres in the high potential areas of Pembina, Brazeau, Phoenix, Berland River, and Clearhills.

In the Alberta foothills, a deep test at Cutoff Creek appears to have established a northward extension of earlier gas discoveries in the Limestone Mountain area. The well, drilled on a 40,000-acre project in which the Company has a 50% interest, is now being evaluated. Additional wells are planned on this structural trend.

The Company's activities in Alberta's deep basin are concentrated in two areas of large acreage holdings, Pembina-Brazeau and Gold Creek - Wapiti. At Pembina-Brazeau, Aquitaine has a 35.5% interest in the Owl River 10-24 well which is a Cretaceous gas discovery that is sufficiently encouraging to warrant follow-up drilling in 1978. During the year the Company increased its acreage in the area to 110,000 net acres, acquiring a 35.5% interest in one license of 20,320 acres, and a 20% interest in another license of 22,400 acres. Average cost of the acquisition was $264 per acre.

In the Gold Creek-Wapiti-Elmworth area where Aquitaine has interests averaging about 10% in 500,000 acres, six potential gas wells were drilled. Two more are currently drilling and an additional fifteen wells will be drilled in this gas-prone area in 1978.

In the Hotchkiss area of the northern plains, a 7,600-foot test is currently drilling to evaluate Devonian gas prospects. Aquitaine has interests ranging from 25% to 100% in 213,000 acres in this area. Additional drilling and seismic are planned for early in 1978. The Company has also purchased a 100% interest in a 10,000-acre block for $55 per acre, four miles west of the recently discovered Botha River Devonian gas field.

An 11-well heavy oil evaluation program on Aquitaine's Beaverdam lease in the Cold Lake area was completed in the fall. Additional drilling is planned for 1978 to evaluate the areas of thick sand development.

Upper left: Pumping unit at Rainbow Lake oil field
Photo by P. Gstalder

Upper right: Microearthquake and ground-noise monitoring equipment in Gabbs Valley, Nevada.
Photo by R. Amberg

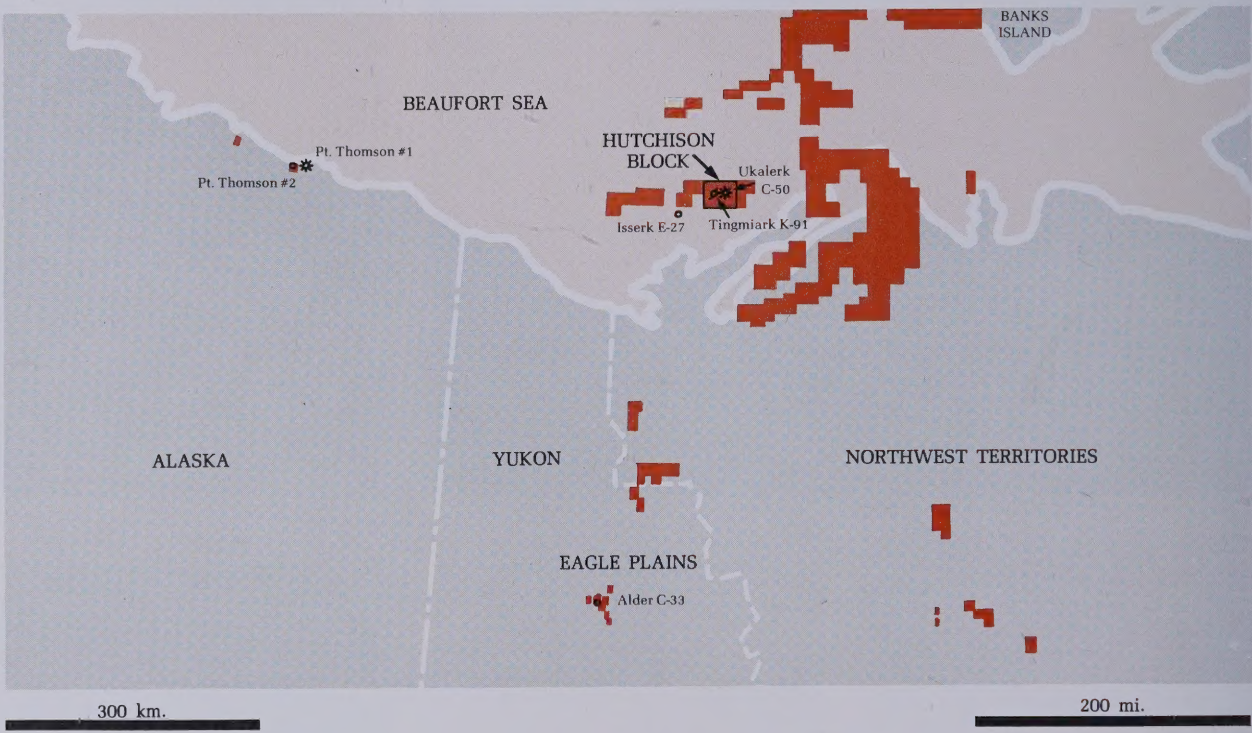
Middle right: Offshore drilling in the Beaufort Sea
Photo by P. Gstalder

Lower right: Soil testing at the Alder C-33 well site, Eagle Plains, Yukon
Photo by T. Beck

British Columbia

Exploration continues on the Company's 155,000-acre holdings at Poplar, in which it has a 70% interest. A southerly extension of shallow gas reserves discovered during the 1973-74 exploration program in the Maxhamish area is currently being evaluated by drilling.

Provision has been made in the 1978 budget for a program of increased acreage acquisition within this province.



ARCTIC, YUKON, NORTHWEST TERRITORIES AND ALASKA

Yukon and Northwest Territories

Dome Gulf Ukalerk C-50, the second well drilled on Company acreage in the Beaufort Sea, was a gas discovery. It was drilled and cased to 7,561 feet. A 90-foot sand zone at 6,600 feet yielded 16.9 million cubic feet of gas per day on drillstem test. The operator calculated an open flow in excess of 200 million cubic feet a day. Further drilling will be carried out in 1978 to test deeper horizons on the structure.

The well was drilled on the Hutchison Block under a farmout agreement. Aquitaine's 39.65% interest in the 348,000-acre block will be approximately 20% when all drilling options have been exercised.

Drillable structures have been found on a 611,000-acre block in which the Company has a 30% interest immediately west of the Hutchison Block. As a result of pooling 15,000 acres from the block with a similar amount of Imperial Oil acreage, Aquitaine has a 15% interest in the Imperial Isserk E-27 well. This well, spudded December 4, 1977, is licensed to drill to 14,000 feet.

Two major structures have been delineated by geophysics in the Hazen Strait area in the Arctic Islands. They are located on acreage in which Aquitaine has an interest 16 miles north of the Hecla gas field. Preliminary environmental studies are now underway as a prerequisite for drilling.

In the Yukon Territory, the Company has resolved land and environmental problems and is currently preparing to drill the Aquitaine Alder well in the southeast corner of Eagle Plains.

Alaska

On the North Slope the Company has a 20% interest in two leases which are included in the Point Thomson Divided State Drilling Unit. A well, in which Aquitaine has no interest, drilled on an adjoining drilling unit, flowed 18.5° API oil at 2,300 barrels per day from a zone near 13,000 feet. Gas flows were also obtained in tests. The operator elected to drill the second well on the unit on one of Aquitaine's leases, four miles to the west. Upon completion, Aquitaine will retain a 10% interest in this well which is currently being drilled at no cost to the company.

Labrador Sea

The Labrador Group, in which Aquitaine has a 13⅓% interest, continued working along the Labrador shelf in 1977, although the program was limited to seismic, production feasibility studies, environmental surveys, and winter ice studies. Because of the continuing federal-provincial dispute over ownership

and jurisdiction there was no exploratory drilling.

Farther north, exploration of Frobisher Bay and Cumberland Sound consisted mainly of environmental studies and seismic on the 3.6 million permit acres. Aquitaine has acquired partners for this project and is operator for the Baffin-Labrador Group. Aquitaine will retain the majority interest in the project after partners have earned their interest. Present plans are for the first test well to be drilled on the Group's acreage in 1979.

Offshore Greenland

Aquitaine retained its 29⅙% working interest in the TGA/GREPCO Group Concessions. The Group carried out a small scale exploration program on the 1.3 million offshore acres southwest of Greenland and is currently reappraising the potential of the area following the drilling of four dry holes by other operators.

Northern United States

Aquitaine's exploration of the three million-acre Burlington Northern lands continued with emphasis on geophysical appraisal, particularly on the acreage located within the Williston Basin where industry has made several significant discoveries in recent months. This work resulted in the definition of several promising structural anomalies. Two drilling rigs have been engaged under long term contracts and further drilling will start in the spring.

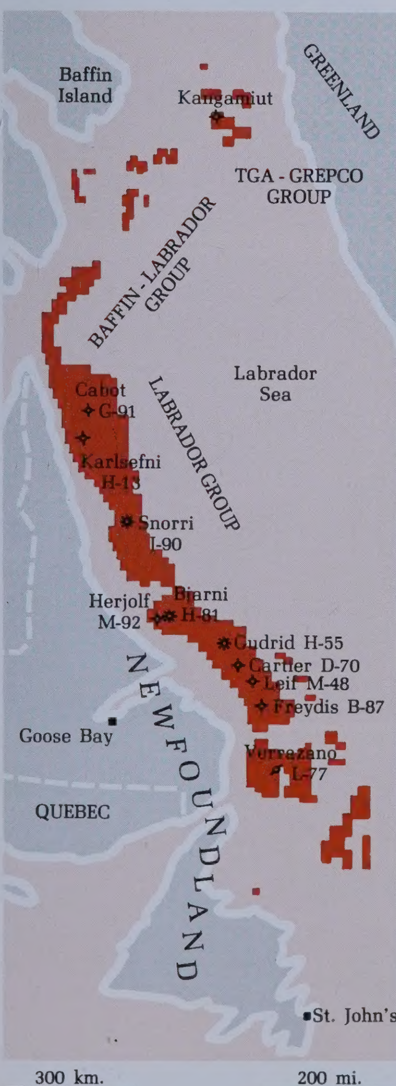
Accelerated development drilling on the Company's acreage in the Mondak oil field is anticipated for 1978, where six zones capable of production have been recognized.

Aquitaine, as a 40% partner in the McCabe Joint Venture, participated in the exploration of over 100,000 acres in northeast Montana. Two exploratory tests were drilled, resulting in one Red River oil discovery and one Ratcliffe oil discovery. A third deep test was drilling at year end.

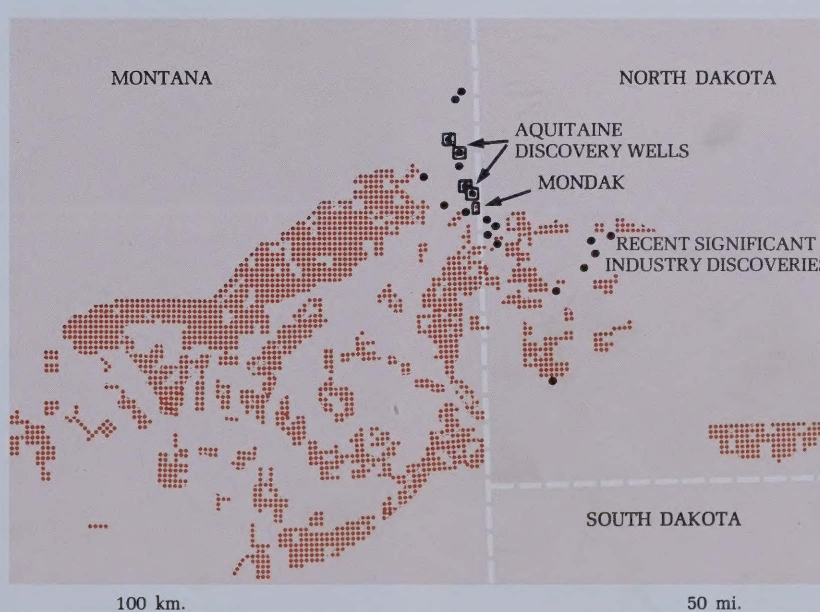
Brinkerhoff 8-23N-58E Bond #1 was drilled to 12,550 feet and was completed as a Red River oil discovery. Aquitaine has a 50% working interest in the discovery until payout.

Geothermal Exploration

The presence of a heat anomaly on geothermal leases in Nevada has been confirmed by geophysical surveys and the Company hopes to evaluate it by a deep test in 1978.



OFFSHORE LABRADOR
OFFSHORE BAFFIN ISLAND
OFFSHORE GREENLAND



MONTANA AND NORTH DAKOTA

The Company's 1977 mining exploration program was directed towards two main targets, base metals and uranium. The search for base metals was carried out in three major geological areas of Canada and the northeast United States — the Shield, the Appalachians and the Cordillera — and will continue in 1978.

Drilling of prospects located along sulphide-bearing volcanic trends in the Appalachians and South Keewatin failed to find copper-zinc deposits of commercial quality.

Aquitaine will expand its coast-to-coast uranium exploration program. Plans for 1978 include the evaluation of potential uranium-producing properties in the Yukon and the Maritimes, in addition to prospecting in new areas.

Upper right: Mineral exploration in the Yukon
Photo by A. Clark

Middle right: Cook tent at Alder C-33 site during wellsite preparation
Photo by T. Beck

Lower right: Saskatchewan River, Stolberg pipeline crossing in foreground
Photo by T. Beck

Lower left: Wellhead valves or "Christmas tree" atop a natural gas well
Photo by A. Clark

PRODUCTION OPERATIONS

General

The Company's oil and gas operating costs increased 14% over 1976. This can be attributed to the bi-annual turnaround at Ram River, to increases in wages and maintenance costs and to fees paid for the first time in 1977 for the use of another company's excess capacity at the Ram River plant.

Operating costs for coal increased 28%. Approximately one-third of the increase resulted from the expression of U.S. costs in Canadian currency. The remainder was due to temporary production problems, reference to which follows under "Coal".

Crude Oil

Rainbow Field

Four infill development wells were successfully completed to maintain deliverability in the Rainbow field. One well was drilled in each of Keg River A, O, B and E pools.

Natural Gas

Rainbow

A five well drilling program for Bluesky shallow gas in the Rainbow area was completed, with the wells presently suspended awaiting a gas sales contract. This additional production capability is anticipated at 5 million cubic feet per day.

A Muskeg-Sulphur Point gas well was drilled and placed on production at 4 million cubic feet per day. This gas is being sold for pressure maintenance in the Rainbow South area.

Innisfail

At Innisfail, drilling is continuing to delineate shallow gas producing areas to support future gas sales contracts.

Ram River

The Ram River plant operated smoothly and steadily throughout the year. Net production, after royalties, averaged 97 million cubic feet per day compared with 100.8 in 1976.

The plant also processed an average 21 million cubic feet per day of raw gas from the Ricinus D-3A pool and 17 million cubic feet per day from the Ricinus West for other operators during the year.

Stolberg

A 16" gas pipeline from Stolberg to Ram River was approved by government authorities late in 1977 and is now under construction. The line will carry approximately 70 million cubic feet per day of sour gas from two gas pools in the West Nordegg-Stolberg area to the Ram River plant for processing. Completion of the facilities is scheduled for late 1978. Aquitaine has a 22.92% interest in the pipeline and is the operator of the project for a group of 17 producer companies.

Sulphur

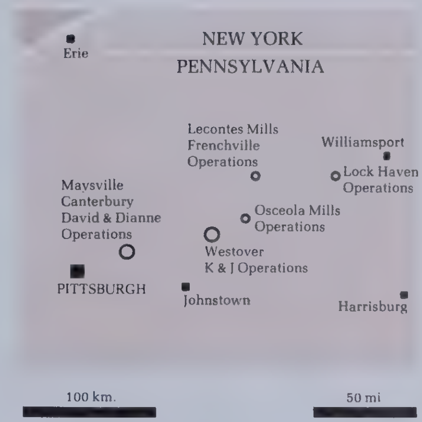
The Company's share of sulphur production from the Ram River plant increased by nearly 4.5% to 994,000 long tons. In addition to the 527,000 tons sold as slate sulphur, exchanges accounted for 221,000 tons and 246,000 tons were added to inventory. Gross sulphur production from other areas amounted to 31,000 tons.

Coal

Coal production was down because of temporary technical problems, difficult mining conditions and a miners' strike which shut down production and shipments since early December. The lower volumes were compensated by higher prices applicable to the Company's increased production of the more valuable metallurgical coal.

The Company's new facilities for processing metallurgical coal became operational in the fall. A second large electric shovel went into operation at Westover, but it was used chiefly on preparation of the pit for the arrival of a large electric dragline which is scheduled for startup at the end of 1978.

The startup of mining operations of the new underground mine was delayed because of construction problems and the strike. The mine should be in operation soon after the miners return to work.



WESTERN PENNSYLVANIA

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company follows the generally accepted Canadian accounting policies set out below. These policies, together with the following notes, should be considered an integral part of the consolidated financial statements.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Aquitaine Company of Canada Ltd. and its subsidiaries, all of which are wholly owned and collectively referred to hereafter as "the Company".

The Company's investment in Rainbow Pipe Line Company Ltd., representing 33⅓% of the issued capital, is accounted for by the equity method.

FOREIGN EXCHANGE

Assets and liabilities in foreign currencies have been converted to Canadian currency on the following bases:

(i) current assets and current liabilities at the exchange rate on December 31;

(ii) properties, plant and equipment, investments and other assets, long term debt, income and expenses at the exchange rate in effect on the date of the transaction;

(iii) accumulated depletion, depreciation, amortization and deferred income taxes and current provisions against earnings on the basis of the converted value of the related assets.

Exchange gains or losses are included in determining net earnings for the year in which they are recognized.

PROPERTIES, PLANT AND EQUIPMENT

The Company follows the full cost method of accounting for oil and gas properties. Separate cost centers have been established for North America including the Arctic Islands and foreign jurisdictions, the latter generally on a country by country basis. Under this concept all costs, including a portion of administrative expenses, relating to the exploration for and development of oil and gas reserves are capitalized. Depletion of such costs is provided for by the unit of production method based on each cost center's total estimated recoverable reserves of oil and gas.

The costs of exploration and development of coal properties are capitalized with depletion being provided for by the unit of production method based on the estimated recoverable reserves of coal.

Costs related to mining properties including a portion of administrative expenses are capitalized when acquired or undertaken. A regular charge is made to earnings for amortization of undeveloped mining properties. When the properties are abandoned their cost is charged against the accumulated amortization and any excess of abandonments over the accumulated amortization is charged as additional amortization against current year's earnings.

Depreciation of oil and gas plants and production equipment and coal preparation plants is provided for by the unit of production method. Depreciation of other coal equipment and other assets is provided for by the straight-line method at rates of from 4% to 30%, based on the estimated service life of each group of assets.

Upon disposal of oil and gas properties, plant and production equipment, the proceeds and applicable accumulated depletion and depreciation are normally applied to reduce the cost of the remaining assets without recognition of gain or loss. In the case of coal properties, plant and equipment, and other assets, the difference between the proceeds and net book value is charged or credited to earnings.

Maintenance and repairs are charged against earnings, and renewals and betterments which extend the economic life of the properties, plant and equipment are capitalized.

INCOME TAXES

The Company accounts for income taxes on a tax allocation basis for all significant timing differences.

CONSOLIDATED STATEMENT OF NET EARNINGS

For the years ended December 31, 1977 and 1976

	1977	1976 (restated)
	(thousands)	
INCOME		
Sales		
Oil, gas, liquid products and sulphur after deduction of royalties (1977 — $75,472; 1976 — $59,278)	$125,350	$109,146
Coal	33,026	30,185
	158,376	139,331
Equity in earnings of Rainbow Pipe Line Company Ltd.	1,686	1,918
Interest and other income	3,725	2,443
	163,787	143,692
EXPENSES		
Operating		
Oil, gas, liquid products and sulphur	13,771	12,038
Coal	28,072	21,862
	41,843	33,900
Administrative	8,770	8,409
Interest	4,691	4,305
Research	920	944
	56,224	47,558
EARNINGS BEFORE THE FOLLOWING DEDUCTIONS	107,563	96,134
Depletion	17,561	15,307
Depreciation	9,270	8,098
Amortization of mining properties	686	1,840
	27,517	25,245
EARNINGS BEFORE INCOME TAXES	80,046	70,889
Income taxes (Note 4)		
Current	44,341	26,879
Deferred	(257)	9,958
	44,084	36,837
NET EARNINGS	$ 35,962	$ 34,052
NET EARNINGS PER SHARE (based on average number of shares outstanding during the year)	$1.67	$1.62

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the years ended December 31, 1977 and 1976

	1977	1976 (restated)
	(thousands)	
Balance at beginning of year		
Previously reported	$128,311	$100,438
Adjustment to give retroactive effect to change in accounting policy for foreign exchange (Note 1)	409	418
Restated	128,720	100,856
Net earnings	35,962	34,052
Dividend (1977 — 32¢ per share; 1976 — 30¢ per share)	(6,898)	(6,188)
Balance at end of year	$157,784	$128,720

CONSOLIDATED BALANCE SHEET

As at December 31, 1977 and 1976

	1977	1976
		(restated)
	(thousands)	
Assets		
CURRENT ASSETS		
Cash	$ 511	$ 305
Short term investments	61,520	27,123
Accounts receivable	34,076	25,013
Inventories of materials, supplies and coal at lower of cost or replacement cost	6,107	5,342
Prepaid expenses	3,087	650
	105,301	58,433
INVESTMENTS AND OTHER ASSETS		
Rainbow Pipe Line Company Ltd.	2,508	2,732
Other at lower of cost or realizable value	4,031	4,495
	6,539	7,227
PROPERTIES, PLANT AND EQUIPMENT (Note 3)	376,518	342,483
	$488,358	$408,143
Liabilities		
CURRENT LIABILITIES		
Bank loan	$ 21,888	$ —
Accounts payable and accrued liabilities	25,044	19,070
Due to parent company — Société Nationale Elf Aquitaine	1,347	660
Income taxes payable	20,953	10,725
Current portion of long term debt	11,074	3,098
	80,306	33,553
LONG TERM DEBT (less current portion) (Note 5)	54,359	49,704
DEFERRED INCOME TAXES (Note 4)	64,321	64,578
	198,986	147,835
Shareholders' Equity		
CAPITAL STOCK		
Authorized — 23,000,000 shares without nominal or par value		
Issued — 21,557,798 shares	131,588	131,588
RETAINED EARNINGS	157,784	128,720
	289,372	260,308
COMMITMENTS AND CONTINGENCIES (Note 8)		
	$488,358	$408,143

Signed on behalf of the Board

Director

Director

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the years ended December 31, 1977 and 1976

	1977	1976 (restated)
	(thousands)	
SOURCE OF FUNDS		
From operations		
Net earnings	$ 35,962	$ 34,052
Add depletion, depreciation, amortization, deferred income taxes and other items not requiring an outlay of working capital	26,776	35,713
	62,738	69,765
Long term debt	4,768	11,803
Issue of shares	—	20,925
Disposals of properties, plant and equipment and changes in other assets	2,126	22,332
	69,632	124,825
APPLICATION OF FUNDS		
Capital expenditures		
Oil and gas		
Land acquisition and rentals	10,606	5,868
Exploration	16,865	20,990
Development	3,305	3,961
Plant and equipment	2,864	2,249
Coal		
Land acquisition	2,744	1,641
Exploration	99	253
Development	6,760	1,614
Plant and equipment	17,741	13,725
Mining exploration	1,521	1,230
	62,505	51,531
Acquisition of Elf Oil Exploration and Production Canada Ltd., less $4,378 working capital at date of acquisition	—	16,690
Reduction in long term debt	114	18,003
Reduction in deferred income	—	14,290
Dividend	6,898	6,188
	69,517	106,702
INCREASE IN WORKING CAPITAL	$ 115	$ 18,123
CHANGES IN ELEMENTS OF WORKING CAPITAL		
Increase (decrease) in current assets		
Cash	$ 206	$ (184)
Short term investments	34,397	21,136
Accounts receivable	9,063	(867)
Inventories	765	1,992
Prepaid expenses	2,437	(560)
	46,868	21,517
Increase (decrease) in current liabilities		
Bank loan	21,888	—
Accounts payable and accrued liabilities	5,974	1,286
Due to parent company	687	(161)
Income taxes payable	10,228	(703)
Current portion of long term debt	7,976	2,972
	46,753	3,394
Increase in working capital	115	18,123
Working capital at beginning of year	24,880	6,757
Working capital at end of year	$ 24,995	$ 24,880

NOTES TO FINANCIAL STATEMENTS

December 31, 1977 and 1976

1. CHANGE IN ACCOUNTING POLICY

During 1977 the Company changed its accounting policy in respect to conversion of long term debt payable in foreign currencies to Canadian currency. Previously such debt was converted at the exchange rate in effect at the end of each period. The revised policy which conforms to that followed by most companies in the Canadian oil and gas industry is to state such debt at the rate in effect at the date the debt was incurred. As a result, net earnings for 1976 have been reduced by $9,000 and retained earnings as of January 1, 1976 increased by $418,000 being the adjustment for 1975. Net earnings for 1977 would have been reduced by $3,046,000 had the policy not been changed.

2. ACQUISITION

On July 30, 1976, all of the outstanding shares of Elf Oil Exploration and Production Canada Ltd. (Elf) together with an account payable by that company to its parent of $14,107,000 were acquired in exchange for 930,000 shares of the Company valued at $20,925,000. Expenses related to the acquisition amounted to $143,000. Elf, at date of acquisition, held some 19 million net acres of oil and gas exploration rights, primarily in the frontier areas of Canada, had minor oil production in Alberta, and working capital of $4,378,000. The acquisition has been accounted for as a purchase and the accounts have been consolidated with those of the Company since acquisition. The excess of the net book value at acquisition over the consideration paid, $39,343,000, has been deducted from the carrying value of oil and gas properties acquired and the remaining costs are being amortized by the unit of production method based on total estimated reserves of oil and gas.

The acquisition cost of Elf of $21,068,000 was represented by the following:

		(thousands)
Current assets		$ 4,466
Properties and equipment		16,714
		21,180
Less		
Current liabilities	$88	
Long term debt	24	112
		$21,068

The following pro-forma information for 1976 assumes Elf was acquired January 1, 1976:

Income (thousands)	$143,838
Net earnings (thousands)	33,506
Net earnings per share	$1.55

3. PROPERTIES, PLANT AND EQUIPMENT

	1977			1976		
	Assets	Accumulated provisions (thousands)	Net	Assets	Accumulated provisions (thousands)	Net
Oil and gas						
Canada	$335,914	$121,447	$214,467	$308,598	$ 98,359	$210,239
United States	39,388	503	38,885	34,120	319	33,801
Other foreign	5,559	—	5,559	5,074	—	5,074
Coal						
United States	112,121	6,284	105,837	86,397	4,347	82,050
Mining						
Canada	5,983	132	5,851	5,185	—	5,185
United States	336	24	312	157	13	144
Office building						
Canada	8,753	3,146	5,607	8,753	2,763	5,990
	$508,054	$131,536	$376,518	$448,284	$105,801	$342,483

4. INCOME TAXES

Deferred income taxes result from timing differences in the recognition of income and expenses for income tax and financial statement purposes. The sources of these differences and the tax effect of each were as follows:

	1977	1976
	(thousands)	
Capital cost allowance deducted for income tax purposes in excess of depreciation	$ 9	$5,447
Exploration and development expenditures deducted for income tax purposes in excess of depletion	—	3,499
Other	(266)	1,012
	$(257)	$9,958

Total income tax expense was $44,084,000 in 1977 and $36,837,000 in 1976, effective rates of 55% and 52% on earnings before income taxes respectively. Such income tax expense varies from the amounts that would be computed by applying the Canadian federal and provincial income tax rates of 47% to earnings before income taxes for the following reasons:

	1977		1976	
	Amount	% of pre-tax earnings	Amount	% of pre-tax earnings
	(thousands)		(thousands)	
Computed income tax expense	$37,622	47	$33,318	47
Increase (decrease) in income taxes resulting from:				
Non-deductible royalties, mineral taxes and other expense less federal resource allowance and provincial rebates	10,659	13	7,477	11
Income tax depletion	(2,465)	(3)	(3,368)	(5)
Other	(1,732)	(2)	(590)	(1)
Income tax expense	$44,084	55	$36,837	52

5. LONG TERM DEBT

	1977	1976 (restated)
	(thousands)	
Commercial paper:		
Payable in Canadian funds and issued at an average interest cost of 1977 — 7.3%; 1976 — 8.7% and maturing on varying dates within one year (see 5(a) below)	$16,673	$11,164
Payable in United States funds and issued at an average interest cost of 6.8% and maturing on varying dates within one year ($30,241,000 U.S.) (see 5(a) below)	30,769	—
Bank loan with interest currently at 7.6% and due within one year ($15,000,000 U.S.) (see 5(a) below)	15,363	—
Loan from parent company, Société Nationale Elf Aquitaine with interest currently at 5.99% and payable on demand ($38,826,000 U.S.) (see 5(a) below)	—	38,779
Amount together with interest at 4%, payable out of coal production over an estimated five year period from December 31, 1977 (1977 — $873,000 U.S.; 1976 — $955,000 U.S.)	890	959
Mortgages payable	881	932
Advances from joint venture participants	857	857
Other	—	111
	65,433	52,802
Less current portion	11,074	3,098
	$54,359	$49,704

(a) The commercial paper issued, bank loan and the loan from parent company were made pursuant

to a long term financing plan. The plan is supported by offers of credit facilities from Canadian and United States banks totalling $30,000,000 available in Canadian or U.S. funds and $45,000,000 available in U.S. funds. Under the terms of the agreements the facilities expire as follows: $13,000,000 in 1978; $25,000,000 in 1979; $14,000,000 in 1981; and $23,000,000 until cancelled after 13 months notice (no such notice of cancellation has been received to December 31, 1977). These credit facilities are subject to standby fees of $^3/_8$ of 1% or less and may be reduced at the Company's option on 60 days or less notice, except as to $15,000,000 which requires 13 months notice. The Company also has the right to convert the facilities into term loans repayable in: 1978 — $10,000,000; 1979 — $31,000,000; 1980 — $10,000,000; and 1981 — $24,000,000.

(b) Long term debt repayments for the next six years, assuming the commercial paper and bank loan referred to above are converted to term loans at January 1, 1978 are: 1978 — $11,074,000; 1979 — $18,160,000; 1980 — $10,218,000; 1981 — $24,195,000; 1982 — $209,000; and 1983 — $35,000.

(c) If the long term debt payable in United States funds were translated at the exchange rate in effect at the end of the year, long term debt would have been $57,814,000 at December 31, 1977 (1976 — $50,113,000).

6. LINES OF BUSINESS INFORMATION

The following relates to the Company's main lines of activity. Earnings from oil and gas are derived primarily from operations in Canada. All of the Company's coal operations are in the United States.

	1977	1976 (restated)
	(thousands)	
Gross revenue		
Oil and gas	$128,621	$111,297
Coal	33,480	30,477
Mining	—	—
	$162,101	$141,774
Operating profit (loss)		
Oil and gas	$ 84,488	$ 72,266
Coal	(288)	2,915
Mining	(686)	(1,840)
	83,514	73,341
Add (deduct):		
Equity in earnings of Rainbow Pipe Line Company Ltd.	1,686	1,918
Interest expense, foreign exchange gains and losses, and general corporate expenses	(5,154)	(4,370)
Earnings before income taxes	80,046	70,889
Income taxes	44,084	36,837
Net earnings	$ 35,962	$ 34,052

Depletion, depreciation and amortization deducted in determining the above operating profits follows:

	1977	1976
	(thousands)	
Oil and gas	$ 23,819	$ 20,806
Coal	3,012	2,599
Mining	686	1,840
	$ 27,517	$ 25,245

The aggregate carrying value of assets for each line of business as at December 31, 1977 and 1976 is as follows:

	1977	1976
	(thousands)	
Oil and gas		
Canada	$307,541	$261,838
United States	39,434	34,393
Other foreign	5,565	5,087

Coal		
United States	121,540	92,774
Mining		
Canada	5,851	5,185
United States	312	144
Office building		
Canada	5,607	5,990
Investment in Rainbow Pipe Line Company Ltd.		
Canada	2,508	2,732
	$488,358	$408,143

Gross revenue from oil and gas includes sales, after royalties, of 1977 — $55,512,000; 1976 — $49,284,000 to Alberta Petroleum Marketing Commission (a government agency which is the sole purchaser of crude oil in Alberta) and 1977 — $45,552,000; 1976 — $38,447,000 to Consolidated Natural Gas Limited (purchaser of natural gas from the Company's Ram River plant).

7. QUARTERLY FINANCIAL INFORMATION (Unaudited)

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	1977	1976	1977	1976	1977	1976	1977	1976
	(thousands)							
Income	$37,619	$33,452	$35,523	$30,024	$43,035	$36,094	$47,610	$44,122
Operating, administrative, interest and research expenses	12,365	11,205	12,894	12,013	14,834	11,627	16,131	12,713
Depletion, depreciation and amortization	6,146	6,484	5,566	6,195	6,434	6,876	9,371	5,690
Income taxes	10,918	7,059	9,195	5,489	12,895	9,644	11,076	14,645
Net earnings	$ 8,190	$ 8,704	$ 7,868	$ 6,327	$ 8,872	$ 7,947	$11,032	$11,074
Net earnings per share	$0.38	$0.42	$0.36	$0.31	$0.42	$0.37	$0.51	$0.52

The above amounts have been restated from those previously published to reflect the change in accounting policy referred to in Note 1.

8. COMMITMENTS, CONTINGENCIES AND DIVIDEND RESTRICTIONS

(a) The annual rental obligations for buildings and equipment under long term leases are: 1978 — $2,497,000; 1979 — $1,990,000; 1980 — $1,677,000; 1981 — $1,386,000; 1982 — $1,004,000; and $3,306,000 thereafter. Actual rental expense for 1977 was $3,501,000 and 1976 was $2,221,000.

(b) Contingent liabilities exist for indeterminate amounts of suits, claims and guarantees. In the opinion of the management of the Company, the outcome of these contingencies will not have a materially adverse effect upon the Company's financial position.

(c) The Company is subject to the Canadian government's anti-inflation legislation which will restrict the maximum amount of dividends which can be paid during the twelve month period ended October 13, 1978.

9. OTHER INFORMATION

(a) Fees and remuneration paid to directors and officers follows:

	1977	1976
Number of directors	10	9
Number of directors who received fees as directors	4	3
Number of officers who are directors	2	2
Aggregate directors' fees	$17,000	$16,000
Number of officers	10	12
Aggregate officers' remuneration	$463,000	$498,000

(b) The Company through formal pension plans and coal union health and retirement benefit plans provides for pensions for substantially all employees. Costs for such plans which are funded as accrued were: 1977 — $1,673,000; 1976 — $1,444,000. The plans are fully funded.

(c) Foreign exchange gains and losses included in administrative expenses are: 1977 — losses $332,000; 1976 — gains $82,000.

(d) Replacement Cost Information (unaudited) — The U.S. Securities and Exchange Commission requires that information as summarized below be disclosed regarding the replacement cost of certain of the Company's assets. Assets employed in the Company's oil and gas operations in the field are exempted from the requirements and only replacement cost of plant and equipment used in coal and mining operations is required. Reference is made to the accompanying consolidated statement of changes in financial position for details of current expenditures on land acquisition and rentals, exploration and development of oil and gas, coal and mineral properties. Carrying values of inventories approximate replacement cost. Although replacement cost has been determined on what management believes to be a reasonable basis and represents the estimated cost that would be incurred if such assets were replaced at December 31, 1977, it is their opinion that the information is of limited value because of conceptual difficulties and imprecision inherent in determining same. Depreciation based on replacement cost has been calculated on a straight line method using the same estimates of useful life utilized in preparing the historical cost financial statements.

	Replacement cost	Historical cost
	(thousands)	
Coal plant and equipment	$65,694	$35,479
Office building	17,500	8,753
Other	4,826	2,930
	88,020	47,162
Less accumulated depreciation	32,382	7,182
	$55,638	$39,980
Depreciation expense for 1977	$ 5,493	$ 2,383

(e) The Company's coal operations have been substantially shut down since early December 1977 as a result of a United Mine Workers of America strike.

AUDITORS' REPORT

The Shareholders,
Aquitaine Company of Canada Ltd.

We have examined the consolidated balance sheet of Aquitaine Company of Canada Ltd. as at December 31, 1977 and 1976 and the consolidated statements of net earnings, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1977 and 1976 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles which, after giving retroactive effect to the change in accounting policy with respect to translation of foreign currencies as detailed in Note 1, have been applied on a consistent basis.

Calgary, Alberta
February 14, 1978

TOUCHE ROSS & CO.
Chartered Accountants

Operations

Net earnings for 1977 were $35,962,000, an increase of 6% over the restated results for the prior year. On a per share basis, net earnings were $1.67 compared with $1.62 for 1976.

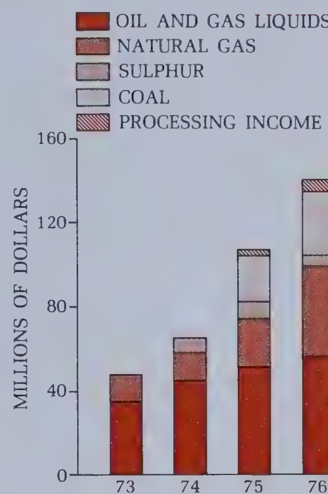
As mentioned in Note 1 to the financial statements, the Company has adopted a revised policy of restating long term debt payable in foreign currencies at the rate in effect at the date the debt was incurred. The policy previously followed is mandatory in the United States, but in Canada both methods are currently accepted, with the Company's new practice being more commonly used in the oil and gas industry. The Company plans to pay the amount included in the long term debt of $36,829,000 in U.S. funds out of U.S. earnings and in management's view, the policy now in use presents more fairly the actual result of operations. It avoids the inclusion in earnings of substantial unrealized gains and losses due to fluctuations in the Canadian dollar in relation to the U.S. dollar. These fluctuations were particularly apparent in reporting quarterly results.

Depletion and depreciation increased reflecting higher unit costs which result, under the full cost method of accounting for oil and gas, from the additional investment in exploration, and development and in production facilities. The lower sales tended to offset the increase in unit costs. Mining amortization was lower than last year when more prospects were abandoned.

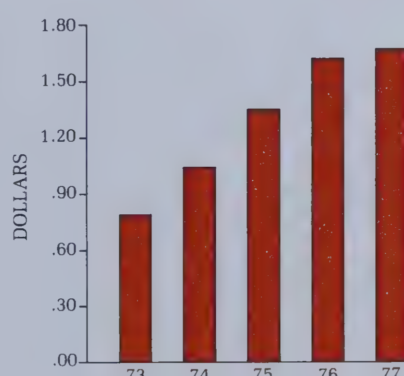
Administrative, interest and research expenses were slightly higher at $14,381,000 compared with $13,658,000, in 1976.

Income taxes were $44,084,000, an increase of 20% although earnings before taxes were up only 13%. The higher level of taxation is due to limitations on the deductibility of royalties, mineral taxes and other expenses in computing income taxes, and to reduction for tax purposes in the depletion allowances, resulting from a lower level of exploration expenditures.

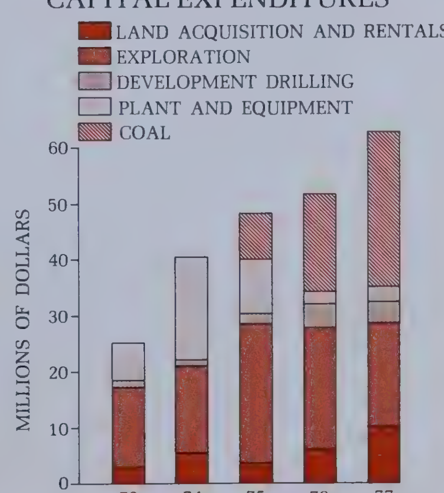
NET SALES



NET EARNINGS PER SHARE



CAPITAL EXPENDITURES



Capital Expenditures

Capital expenditures for the year were $62,505,000 up 21% over 1976. Of this amount $33,640,000 related to oil and gas, $27,344,000 to coal and $1,521,000 to mining activities.

Capital expenditures on coal were for completion of the washing plant at Westover, which will upgrade steam coal to metallurgical coal, for additional cleaning facilities at Canterbury, and for the opening of the Dianne mine.

The Company's expanded oil and gas exploration program was responsible for expenditures of $16,865,000. An active land acquisition program for oil and gas prospects in Alberta took $7,900,000 of the $10,606,000 spent on all land acquisition and rentals. A large portion of the 1978 exploration budget will be devoted to exploration of the Alberta prospects. The Company is also participating in exploration in frontier areas, taking advantage of the incentives offered by the 1977 amendments to Canadian income tax law.

Working Capital

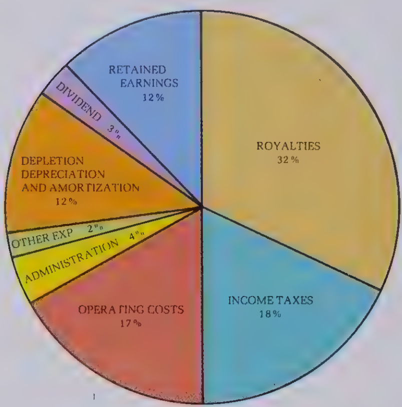
The Company's working capital of $24,995,000 is approximately the same as at the end of 1976. In 1977 the Company took the first steps in a plan to provide permanent financing for the operation of its coal subsidiary, Aquitaine Pennsylvania, Inc. The Company's long term lines of credit were increased to $75,000,000. Arrangements were also made for the issuance of the Company's commercial paper in U.S. funds. At year end the plan, which is expected to be in full effect in early 1978, accounted

for the increase in short term investments to $61,520,000 and the bank loan of $21,888,000 included in current liabilities.

Dividend

A dividend of 32¢ per share was paid during the year compared with 30¢ for 1976. This increase was the maximum amount payable under Canadian anti-inflation legislation.

DISTRIBUTION OF INCOME



Information on Voting Shares

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Market price per share				
1977 High ...	$17 7/8	$17 1/8	$17 3/4	$17 3/4
Low	14 3/4	14 3/4	14	14 5/8
1976 High ...	23 1/4	24	21 5/8	17 3/4
Low ..	17 3/4	20 1/4	15 1/2	14 1/2
Dividend per share				
1977	—	32¢	—	—
1976	—	30¢	—	—

The shares are listed on the Toronto, Montreal and American Stock Exchanges. The Toronto Stock Exchange accounts for the principal market for the Company's shares, and the market prices above are those reported by that exchange.

This page:
Upper: Ram River plant
Middle: Stockpiled sulphur at Ram River
Lower: Control room at Ram River plant
Photos by P. Gstalder

Opposite page:
Upper right: Control panels at Ram River
Middle: Slated sulphur at Ram River
Lower: Ram River plant
Photos by A. Clark

WELL DRILLING RECORD — 1977

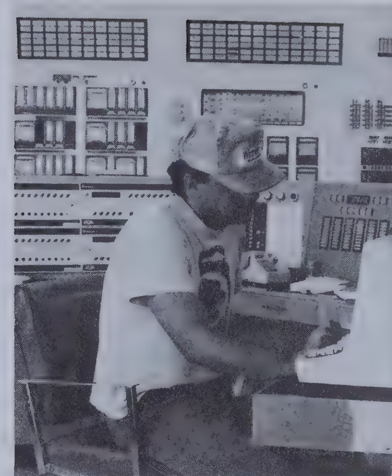
	Land After Cost %	Aquitaine Share of Land After Drilling %	Total Depth	Status at year-end
AQUITAINE OPERATED EXPLORATORY WELLS				
Alberta				
Aquit Mobil Cutoff 5-5-35-11 W5M	50	50	18,051'	Tight
Aquit Strachan 11-28-37-10 W5M	100	100	11,020'	Abandoned
Aquit et al Mayton 6-22-34-28 W4M	31.25	31.25	4,035'	Gas Well
British Columbia				
Aquit et al Kiwigana d-87-G, 94-0-6	70	70	4,000'	Abandoned
Aquit et al Donnamarie a-93-C, 94-0-6	76.5	70.1		Drilling
AQUITAINE OPERATED DEVELOPMENT WELLS				
Alberta				
Aquit Mobil Rainbow 6-25-109-8 W6M	50	50	1,500'	Susp. Gas Well
Aquit Mobil Rainbow 10-32BY-108-7 W6M	50	50	1,496'	Susp. Gas Well
Aquit Mobil Rainbow 11-6BY-109-7 W6M	50	50	1,500'	Susp. Gas Well
Aquit Mobil Rainbow 10-5BY-109-7 W6M	50	50	1,479'	Susp. Gas Well
Aquit Mobil Rains 3-5MG-108-9 W6M	50	50	6,085'	Gas Well
Aquit Mobil Rainbow 6-33-108-7 W6M	50	50	6,280'	Oil Well
Aquit Dome Tehze 1-25-108-9 W6M	33.3	27.2	6,275'	Abandoned
Aquit Mobil Rainbow 4-32-109-8 W6M	50	50	6,692'	Oil Well
Aquit Mobil Rainbow 14-1-110-8 W6M	50	50	6,260'	Oil Well
Aquit et al Rainbow 13-34-108-8 W6M	48.5	48.5	5,934'	Oil Well
Aquit Mobil Rainbow 6-18-109-7 W6M	50	50	6,260'	Oil Well
Aquit Mobil Rainbow 6-33BY-108-6 W6M	50	50	1,554'	Susp. Gas Well
NON-OPERATED EXPLORATORY WELLS				
Alberta				
AmMin et al Stolberg 7-10-41-14 W5M	40	40	13,325'	Shut-in Gas Well
Canhunter et al Karr 10-1-66-3 W6M	9.3	9.3	7,680'	Abandoned
Total et al JIMCK 11-5-91-2 W6M	Nil	47.7	2,735'	Shut-in Gas Well
Amoco et al Owl River 10-24-45-17 W5M	26.9	35.6	17,500'	Gas Well
Amoco et al Big Mt. 7-5-67-7 W6M	8.3	8.3	10,780'	Shut-in Gas Well
Anschutz et al Red Coulee 6-36-1-17 W4M	Nil	25	3,055'	Abandoned
Gulf et al Ricinus West 1-31-36-9 W5M	48	42	9,700'	Oil Well
Anschutz et al Warner 6-24-3-17 W4M	Nil	12.5	3,150'	Gas Well
Anschutz et al Warner 6-3-3-17 W4M	Nil	25	3,485'	Abandoned
Signalta et al Bell 5-10-41-12 W4M	Nil	.7	3,250'	Oil Well
Amoco et al Wapiti 8-36-67-8 W6M	7.5	7.5	10,405'	Shut-in Gas Well
Enserch et al Provost 6-27-39-4 W4M	Nil	47.6	2,801'	Abandoned
Gulf et al Ricinus 7-36-36-10 W5M	13.2	6.2	9,770'	Abandoned
Amoco et al Gold Creek 11-5-68-6 W6M	6.7	6.7	7,791'	Gas Well
Amoco et al Gold Creek 6-11-67-6 W6M	6.7	6.7	8,286'	Gas Well
Canhunter et al Karr 10-16-65-2 W6M	8.7	8.7	7,450'	Gas Well
Home et al Preston Lake 7-13-73-13 W6M	25	18.7	7,902'	Abandoned
Home et al Goodfare 7-15-72-12 W6M	18.7	18.7	7,891'	Tight
Canhunter et al Simonette 10-8-63-1 W6M	8.8	8.8		Drilling
Anschutz et al Warner 6-35-3-17 W4M	Nil	12.5	3,250'	Abandoned
Amoco et al Steep Creek 7-7-65-7 W6M	8.3	8.3		Drilling
Mesa et al Cranberry 10-27-96-3 W6M	25	25		Drilling
Signalta et al Bell 12-10-41-12 W4M	.7	.7	3,157'	Oil Well
Can Sup Aquit Killam 7-21-44-13 W4M	8.3	8.3	3,055'	Shut-in Gas Well
British Columbia				
Scurry Elf Stoddard 16-16-85-19 W6M	Nil	37.5	6,460'	Abandoned
Scurry et al Mallard 16-6-85-19 W6M	Nil	27.3	6,497'	Abandoned
Offshore Beaufort Sea				
Dome Gulf et al Ukalerk C-50 70°09'N 132°43'W	Nil	39.6		Gas Discovery
Imperial Gulf et al Isserk E-27 69°56'N 134°52'W	15	15		Drilling
Offshore Alaska				
Texaco et al OCS-0046 #1 59°45'N 142°58'W	8	8	15,013'	Abandoned
Montana				
Petro Lewis State #9-36 Sec. 36-12N-32E	6.2	6.2	5,790'	Abandoned
Brinkerhoff State #1 Sec. 16-23N-58E	50	25	12,600'	Abandoned
Terrapet Sundheim #1 Sec. 35-28N-57E	40	20	12,316'	Oil Well
Shell BN #33X-25 Sec. 25-23N-59E	5.3	4.7	12,533'	Production Testing
GPE BN Hildebrand Sec. 21-10N-32E	25	25	5,591'	Abandoned
Brinkerhoff Bond #1 Sec. 8-23N-58E	50	25	12,550'	Oil Well
Miles LeClair Westwood GPE-BN Canal #1 Sec. 9-23N-59E	12.5	12.5	9,480'	Oil Well
McAlester-E.S. Swanson et al Sec. 10-10N-32E	33.3	33.3	5,325'	Abandoned
Enserch Ortmann #1 Sec. 7-30N-46E	27.5	25	7,500'	Abandoned
Terrapet Harmon #1 Sec. 29-27N-58E	40	20	12,760'	Oil Well
Getty Otter Creek #1 Sec. 36-9S-46E	25	25	7,689'	Abandoned
Terrapet Rudolph #1 Sec. 8-29N-57E	40	20		Drilling
GPE Al-Aquitaine BN #3 Sec. 1-22N-47E	18.7	18.7	6,421'	Oil Well
GPE-Al-Aquitaine Klucek #1 Sec. 18-11N-28E	25	25	3,620'	Oil Well
North Dakota				
Alpar Resources Logan #1 Sec. 27-137N-100W	Nil	22.5	11,510'	Oil Well

Gross Overriding Royalty Wells

In addition, Aquitaine had a gross overriding royalty interest in 15 wells drilled at no cost to the Company. Of these, 6 wells in Alberta averaging 2,712 feet, resulted in 5 gas wells and one abandonment. In Montana, the drilling of 8 wells averaging 6,182 feet resulted in 2 oil wells and 6 wells were abandoned. One well drilled in North Dakota to 11,510 feet was an oil well.

Unit Wells

In other 1977 drilling in Alberta, Aquitaine had a 2.4% interest in 2 unit wells (suspended gas), a 7.4% interest in 2 unit wells (oil), an 8.9% interest in 3 unit wells (1 gas, 2 oil), and a 0.276% interest in 11 unit wells (all shallow gas wells).



TEN YEAR SUMMARY OF FINANCIAL AND OPERATING DATA

FINANCIAL (1)

EARNINGS	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968
Income										
Sales — oil and gas liquids	63,230	56,014	51,550	45,302	34,936	26,546	21,358	18,180	14,546	12,294
— gas	48,754	43,262	23,274	12,803	13,639	9,568	1,581	1,140	627	594
— sulphur	7,619	5,040	7,213	6,904	(100)	270	60	88	147	458
— coal	33,026	30,185	22,459	—	—	—	—	—	—	—
Other oil and gas production income	5,747	4,830	1,249	—	—	—	—	—	—	—
Total production income	158,376	139,331	105,745	65,009	48,475	36,384	22,999	19,408	15,320	13,346
Investment and other income	5,411	4,361	4,362	5,035	4,842	4,216	4,264	7,301	5,882	1,076
Total income	163,787	143,692	110,107	70,044	53,317	40,600	27,263	26,709	21,202	14,422
Expenses										
Operating — oil and gas	13,771	12,038	10,612	8,374	6,331	5,179	2,083	2,373	2,192	1,874
— coal	28,072	21,862	16,607	—	—	—	—	—	—	—
Administrative	8,770	8,409	5,908	3,185	2,780	2,640	1,226	896	937	1,045
Interest	4,691	4,305	3,865	287	629	712	610	3,345	3,556	3,052
Research	920	944	1,039	841	716	890	600	—	—	—
Depletion, depreciation and amortization	27,517	25,245	23,605	20,609	19,521	12,242	5,566	4,501	2,944	1,799
Total expenses	83,741	72,803	61,636	33,296	29,977	21,663	10,085	11,115	9,629	7,770
Extraordinary gain	—	—	—	—	—	—	—	1,341	815	—
Net earnings before income taxes	80,046	70,889	48,471	36,748	23,340	18,937	17,178	16,935	12,388	6,652
Income taxes — current	44,341	26,879	14,640	—	—	—	—	—	—	—
— deferred	(257)	9,958	5,537	15,296	7,000	5,720	5,400	4,870	3,569	2,000
Net earnings	35,962	34,052	28,294	21,452	16,340	13,217	11,778	12,065	8,819	4,652
Per share	1.67	1.62	1.37	1.04	0.79	0.64	0.57	0.58	0.45	0.29
Funds from operations	62,738	69,765	57,018	57,357	42,861	31,179	22,744	20,095	14,517	8,451
Per share	2.91	3.32	2.76	2.78	2.08	1.51	1.10	0.97	0.75	0.53
Dividend	6,898	6,188	6,188	6,188	4,126	3,094	—	—	—	—
Per share	0.32	0.30	0.30	0.30	0.20	0.15	—	—	—	—
Net earnings by lines of business										
Oil and gas (2)	84,488	72,266	48,949	36,357	22,445	17,906	16,426	17,847	14,187	9,115
Coal (2)	(288)	2,915	2,379	—	—	—	—	—	—	—
Mining	(686)	(1,840)	(686)	(1,282)	(971)	(228)	—	—	—	—
Unallocated (3)	(3,468)	(2,452)	(2,171)	1,673	1,866	1,259	752	(912)	(1,799)	(2,463)
Income taxes	(44,084)	(36,837)	(20,177)	(15,296)	(7,000)	(5,720)	(5,400)	(4,870)	(3,569)	(2,000)

FINANCIAL POSITION	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968
Working capital	24,995	24,880	6,757	18,689	14,350	9,996	28,598	24,278	55,928	17,666
Investments and other assets	6,539	7,227	3,621	3,986	3,575	5,955	5,840	5,532	4,797	1,723
Properties, plant and equipment — net	376,518	342,483	326,507	237,455	217,551	213,314	188,456	145,513	118,435	86,850
Deferred income	—	—	14,852	23,252	29,026	42,059	51,791	21,232	5,723	—
Long term debt	54,359	49,704	55,894	1,619	1,751	1,777	1,704	1,787	38,003	44,371
Deferred income taxes	64,321	64,578	54,620	45,846	30,550	23,550	17,830	12,430	7,560	3,991
Shareholders' equity	289,372	260,308	211,519	189,413	174,149	161,879	151,569	139,874	127,874	57,877

PROPERTIES, PLANT AND EQUIPMENT	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968
Gross investment										
Oil and gas — Canada	335,914	308,598	294,205	268,636	237,498	216,754	180,828	134,107	105,063	87,048
— United States	39,388	34,120	35,121	21,262	13,879	12,556	12,107	11,679	10,948	—
— Other foreign	5,559	5,074	1,278	—	—	—	—	—	—	—
Coal — United States	112,121	86,397	69,417	—	—	—	—	—	—	—
Mining — Canada	5,983	5,185	6,021	4,737	4,329	4,073	3,334	2,284	937	174
— United States	336	157	62	—	—	—	—	—	—	—
Office building										
— Canada	8,753	8,753	8,753	8,753	8,753	8,752	8,751	8,574	8,219	3,539
	508,054	448,284	414,857	303,388	264,459	242,135	205,020	156,644	125,167	90,761
Net investment										
Oil and gas — Canada	214,467	210,239	211,021	204,727	192,230	189,331	165,163	123,439	98,420	83,137
— United States	38,885	33,801	34,267	21,247	13,877	12,555	12,104	11,677	10,948	—
— Other foreign	5,559	5,074	1,278	—	—	—	—	—	—	—
Coal — United States	105,837	82,050	67,640	—	—	—	—	—	—	—
Mining — Canada	5,851	5,185	5,866	4,737	4,329	3,943	3,334	2,284	937	174
— United States	312	144	62	—	—	—	—	—	—	—
Office building										
— Canada	5,607	5,990	6,373	6,744	7,115	7,485	7,855	8,113	8,130	3,539
	376,518	342,483	326,507	237,455	217,551	213,314	188,456	145,513	118,435	86,850

CAPITAL EXPENDITURES	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968
Oil and gas										
Land acquisition and rentals	10,606	5,868	3,752	6,285	3,021	3,760	1,683	3,041	15,479	4,092
Exploration	16,865	20,990	22,778	12,730	12,771	9,112	10,919	13,276	10,856	9,648
Development drilling	3,305	3,961	1,948	1,054	987	2,597	2,005	5,010	629	967
Plant and equipment	2,864	2,249	9,565	18,699	6,592	22,173	32,694	8,472	1,902	6,891
Coal										
Land acquisition	2,744	1,641	2,807	—	—	—	—	—	—	—
Exploration	99	253	—	—	—	—	—	—	—	—
Development	6,760	1,614	—	—	—	—	—	—	—	—
Plant and equipment	17,741	13,725	5,623	—	—	—	—	—	—	—
Mining	1,521	1,230	1,817	1,690	1,523	802	1,050	1,347	763	174
Office building	—	—	—	—	1	1	177	355	4,680	3,539
	62,505	51,531	48,290	40,458	24,895	38,445	48,528	31,501	34,309	25,311
ACQUISITION OF OTHER COMPANIES	—	16,690	60,646	—	—	—	—	—	—	—

OPERATING

PRODUCTION AND SALES (2)	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968
Oil and gas liquids (thousands of barrels per day)										
Before royalty	30.6	31.5	33.1	36.6	38.1	32.9	26.8	25.1	20.9	16.8
After royalty	17.0	18.1	19.8	22.9	31.6	27.4	22.3	20.9	17.4	14.0
Gas (millions of cubic feet per day)										
Before royalty	156.5	174.9	180.0	194.7	212.3	151.7	33.2	24.1	11.6	11.3
After royalty	104.8	124.7	149.7	175.6	197.1	136.0	29.0	21.1	10.2	9.8
Sulphur										
Production (thousands of long tons)	1,025	983	879	976	1,013	472	27	25	25	19
Sales (thousands of long tons)										
Before royalty	541	309	273	457	136	88	8	9	21	7
After royalty	473	273	244	434	131	73	7	8	19	7
Coal sales (thousands of short tons)	1,248	1,376	998	—	—	—	—	—	—	—

NET ACREAGE HOLDINGS (thousands)	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968
Oil and gas — Canada	32,690	35,181	18,838	25,273	27,552	31,594	37,167	43,061	42,463	32,208
— United States	414	448	547	152	24	24	24	24	7	—
— Other foreign	388	388	836	—	—	—	—	—	—	—
Coal — United States	30	33	32	—	—	—	—	—	—	—
Mining — Canada	117	209	371	1,075	1,484	2,523	2,358	3,501	2,419	311

RESERVES (before royalties) (2)	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968
Oil and gas liquids (millions of barrels)	132	142	153	165	177	191	224	235	259	246
Gas (billions of cubic feet)	672	712	823	880	950	1,090	1,200	1,119	745	358
Sulphur (millions of long tons)	12	13	13	13	13	14	13	10	3	1
Coal (millions of short tons)	56	57	57	—	—	—	—	—	—	—
EMPLOYEES at year end	888	802	751	354	348	350	335	272	270	282
SHARES OUTSTANDING (thousands) at year end	21,558	21,558	20,628	20,628	20,628	20,626	20,616	20,613	20,606	18,406

SIGNIFICANT EVENTS

1971 — Acquisition of Banff Oil Ltd. completed. The above information for 1970 and prior years includes the operations of Banff as the acquisition was accounted for partly as a "pooling of interests" and partly as a "purchase".

1972 — Production commenced from Strachan-Ricinus fields.

1975 — Acquisition of Westrans Industries, Inc. (now Aquitaine Pennsylvania, Inc.) completed. With this acquisition the Company commenced operations in the coal business.

1976 — Acquisition of Elf Oil Exploration and Production Canada Ltd. completed. The acquisition resulted in the addition of some 19 million net acres, primarily in the frontier areas of Canada.

— Sale of certain United States oil and gas properties and Beacon Hill gas field.

NOTES:

(1) All dollar amounts, except amounts per share, are in thousands of Canadian dollars.

(2) Oil and gas operations are primarily in Canada; coal operations are in the United States.

(3) Includes equity in earnings of affiliate, extraordinary gains, foreign exchange gains and losses, interest expense and general corporate expenses.

RESERVES

New discoveries, development drilling, and minor adjustments in reserve estimates did not fully compensate for the year's production, and accordingly the Company's remaining reserves of oil and gas liquids, natural gas, sulphur, and coal are lower than at the end of 1976.

The reserves figures, shown below, are estimates of gross proven reserves, before allowances for royalties, as calculated by the Company's geological and engineering staff. Proven reserves are defined for this purpose as those which technical data demonstrate with reasonable certainty may be recoverable for sale in the future from known reservoirs under presently existing conditions and using current operating facilities and procedures. No allowance has been made for probable additional reserves which may be recoverable by more efficient production mechanisms or improved economic conditions.

	1977	1976
Oil and natural gas liquids (million of tank barrels)	132	142
Natural gas (billions of standard cubic feet)	672	712
Sulphur (millions of long tons)	12	13
Coal (millions of short tons)	56	57

ACREAGE HOLDINGS

	1977		1976	
	(Thousands of Acres)			
OIL AND GAS LEASES	**Gross**	**Net**	**Gross**	**Net**
British Columbia	539	254	443	209
Alberta	1,546	657	1,535	652
Saskatchewan	103	1	103	17
Northwest Territories	540	508	561	529
East Coast Offshore	—	—	80	62
Alaska	26	7	26	5
Montana	986	347	1,090	366
North Dakota	68	27	64	41
South Dakota	1	1	1	1
Wyoming	21	6	20	6
OIL AND GAS RESERVATIONS, PERMITS, LICENSES AND CONCESSIONS				
British Columbia	418	223	644	331
Alberta	335	88	247	110
Northwest Territories	2,424	1,760	4,373	3,153
Beaufort Sea	6,428	3,539	5,929	2.550
Arctic Islands	22,461	16,020	20,597	16,307
Hudson Bay	6,267	2,092	7,817	2,248
East Coast Offshore	32,963	7,523	35,178	8,883
Nova Scotia	—	—	268	105
Greenland	1,332	388	1,332	388
Bituminous Sands	50	25	50	25
TOTAL OIL AND GAS ACREAGE	76,508	33,466	80,358	35,988
Mineral permits and claims	177	117	267	209
Geothermal leases	48	26	50	29
Coal				
Pennsylvania	30	30	33	33

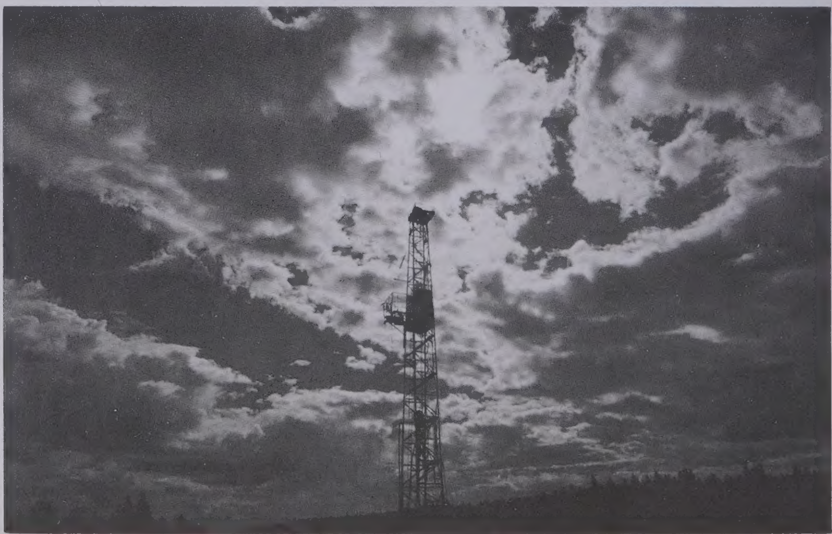


Photo by P. Gstalder

DIRECTORS

WILLIAM D. CLARK
Senior Vice-President, Aquitaine Company of Canada Ltd., Calgary, Alberta

D. CARLTON JONES * ‡
President Carlton Resource Management Ltd., Calgary, Alberta

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GILBERT RUTMAN
Managing Director Exploration and Production, SNEA, President and Chief Executive Officer, SNEA(P), Paris, France

GORDON D. de S. WOTHERSPOON*
Chairman of the Board of Directors, Eaton/Bay Financial Services Limited

* Member of the Audit Committee.

‡D. Carlton Jones, of Calgary, was appointed to the Board replacing Harold W. Manley, a Board Member since 1972, who retired during the year.

EXCHANGE LISTINGS

Toronto Stock Exchange
Montreal Stock Exchange
American Stock Exchange

OFFICERS AND KEY PERSONNEL

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President

WILLIAM D. CLARK
Senior Vice-President

JACQUES BRANGER
Vice-President Production

PIERRE E. GODEC
Vice-President Finance and Treasurer

MICHAEL E. HRISKEVICH
Vice-President Exploration

JEAN-JACQUES PASCAL
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WILLIAM R. PERROTT
Controller

ROBERT C. MURRAY
Manager, Marketing

EDMUND P. ABOUSSAFY
Assistant Treasurer

LAWRENCE M. MACLEOD
Assistant Secretary

AUDITORS

Touche Ross & Co.
Calgary, Alberta

REGISTRARS AND TRANSFER AGENTS

Montreal Trust Company, Calgary, Montreal, Toronto and Vancouver
First National City Bank, New York

Copies of the Company's Annual Report in Form 10-K filed with the Securities and Exchange Commission are available without charge upon request to the Secretary of the Company.

AQUITAINE COMPANY OF CANADA LTD. 1977 ANNUAL REPORT

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